



THE STATE
of **ALASKA**

GOVERNOR MICHAEL J. DUNLEAVY

Office of the Governor

OFFICE OF MANAGEMENT AND BUDGET
Donna Arduin, Director

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MEMORANDUM

DATE: August 28, 2019

TO: All Commissioners
All State Corporations

CC: Ben Stevens, Chief of Staff
All Administrative Services Directors

FROM: Donna Arduin, Director *Donna Arduin*
Office of Management and Budget

RE: FY2021 Budget Development Planning

I want to thank you for your contributions and all the hard work that went into finalizing an FY2020 budget that starts us down the path to a long-term sustainable, predictable, and affordable fiscal plan. The collaboration from you and your staff, especially your Administrative Services Directors and Budget teams, was critical to the success of enacting an FY2020 operating budget that spends \$640 million less in State funds than FY2019. We will continue in this positive direction as we develop the FY2021 budget.

Without policy changes, there will be a deficit of \$883 million between the FY2021 projected revenue from the Spring 2019 Revenue Forecast and the current spending level, so we are seeking ideas and proposals from each agency in order to bridge this gap. We recognize that agencies have reduced their budgets over the last several years, but to bridge this gap, further reductions will be necessary. Attached for your reference is a report that shows the change in State Funds spending from FY2019 to FY2020 by agency. The target reduction for all agencies from FY2019 to FY2021 is 15%. Agencies that submit proposals that result in a higher percentage savings will be able to recommit a portion of their savings to higher priority programs.

Each agency will need to evaluate their programs and activities using the following criteria:

- Evaluating core services and identifying non-core services that can be trimmed or eliminated.
- Aligning core services to better serve customers and identifying business process realignment and efficiencies.
- Working across agency lines with other Commissioners to identify and eliminate duplication of services.

- Reducing regulatory burden – Conduct a thorough review of regulations to reduce burden on Alaskans and Alaska businesses, and include an estimate of cost savings to impacted individuals or businesses.
- Proposing statutory changes – Conduct a thorough review of statute changes required to streamline business functions and operations. The Governor's policy continues to be to follow the statute, so we will be proposing statutory changes with budget proposals.
- Reviewing outcomes – Outcome-based data will be required to not only inform spending reduction proposals, but also to justify continuing or increasing proposed spending levels.
- Prioritizing programs based on core service alignment and outcome data.
- Increasing individual, business, and community self-sufficiency and reducing dependence on State government.
- Outsourcing – Identify areas where the private sector might be able to provide services and areas we might be competing with the private sector.

Program Prioritization

We are requesting an update to each agency's program prioritization, and this year we are requiring this prioritization as an ordinal listing (e.g., #1-17) for each program. If your prior program prioritization did not split out IT, please ensure that your updated prioritization does. Programs with a greater impact on an agency's mission should be ranked higher than ancillary programs. Attached for each agency to use is a template to provide not only an ordinal prioritization, but also activity costs and outcome data for each program. Administrative Service Directors will be trained to evaluate activity costs and outcomes as part of their Performance-based Budget training.

The preliminary ordinal prioritization will need to be provided for discussion during your agency's Budget Development meeting in September, but the full completed document with outcome information will not be due until your Governor's scenario is submitted on October 31. Outcome-based data will be required to not only inform spending reduction proposals, but also to justify continuing or increasing proposed spending levels.

Everything Should Be Considered

Please resubmit proposals from your previous efforts that you would like considered again. Anything the Governor proposed in his February 13 budget that did not get fully implemented in the final FY2020 budget could be submitted for consideration of full implementation in FY2021. Please submit your evaluation of the program and the reason for your proposal. Significant program restructuring or outsourcing, and agency realignments are examples of potential proposals.

Revenue ideas will also be considered, including changes in your program taxes and fees, or tax cuts that could spur economic growth. Please send those ideas in advance as soon as they are ready and include a briefing paper for each idea that can be presented to the Governor's team.

Fund Clarification

We intend to use a new fund code structure in the budget bills submitted for FY2021 that clarifies the fact that Unrestricted General Funds, Designated General Funds and Other State Funds are **all** State Funds. We also intend to simplify appropriation language in the bills to reflect the new structure. The Attorney General has stated that dedicated funds are unconstitutional, but many State Funds have been treated as dedicated.

We will be working with the Division of Finance and the Department of Law to analyze all State Funds and place them into two categories (1) General Funds and (2) "Other" Funds; and to develop a better name for the "Other" Funds category that more clearly describes that these funds are restricted in a very specific way to a specific purpose, such as retiree trust funds. We will also be working with the Legislature and Legislative Finance to ensure they are aware of the direction we are going. More information on this will be provided as the process develops.

Prior Year Appropriation Review and Clean Up

We will be working with each agency on an appropriation clean-up project as a part of the FY2021 budget development process. This will include reviewing **all** open capital or bond appropriations for old and/or inactive projects, as well as projects that given the current fiscal reality may no longer be a priority and can be terminated administratively or repealed. Funding for these projects should lapse to the general fund.

Performance-Based Budgeting

Moving forward, to help inform the State's budget, we are implementing performance-based budgeting (PBB). In FY2021, we will roll out the new performance framework with pilot agencies and then incorporate other agencies over the next two fiscal years. PBB will more clearly show how much government services and policies cost, as well as how efficiently the government is meeting its obligations.

For FY2021 budget development, **all** agencies will identify how each budget component aligns with one or more of the six core policy areas, by percentage:

- Public Protection
- Economic Development
- Education
- Individual, Community, and Business Self-Sufficiency
- Resource Management
- State Operating Infrastructure

This work will be due with your agency's Governor's scenario on October 31. Detailed instructions for inputting this information into the Alaska Budget System (ABS) is attached. In addition, pilot agencies and/or programs will submit a portion of their FY2021 budget proposal in the

performance-based budgeting format. Pilot groups will be contacted individually to clarify scope and detailed training will be provided. During this transition period, non-pilot programs will still need to update the current state performance data.

Existing Initiatives

The FY2021 Governor's budget proposal will not include position transfers related to any existing statewide consolidation initiatives except for the next phase of the Facilities Maintenance consolidation into the Division of Facilities Services. Each agency leading a statewide initiative or Governor's Directive should provide a project update at their FY2021 Budget Development meetings.

Budget Development Meetings and Timeline

- Individual agency FY2021 Budget Development meetings with OMB will occur during the month of September.
 - All meeting materials should be submitted to your OMB budget analyst one week prior to your scheduled meeting. If you have questions about your meeting, please contact Elanor Watts at 465-4660.
- September Budget Development meeting materials should include:
 - Agency Budget Proposals document with write-ups for each budget proposal
 - Preliminary agency program prioritization – final program prioritization with supporting information will be submitted with your Governor's scenario on October 31
 - Statewide Initiatives and Governor's Directives update
 - Capital appropriations spending update
 - A Deferred Maintenance backlog update
 - Fund balance projections
- Meetings to further discuss Budget Proposals with the Governor's Office staff will occur during the month of October.
- A calendar of the budget process through December is attached for your reference.

I look forward to working with you on the next step toward putting a long-term, sustainable fiscal plan in place for Alaska.

Enclosures:

- Attachment 1 – FY2019 to FY2020 State Fund Savings by Agency
- Attachment 2 – Program Prioritization Template
- Attachment 3 – Agency Budget Proposals Template
- Attachment 4 – PBB Statewide Core Policy Distribution Instructions
- Attachment 5 – Capital Appropriation Spend Update Template
- Attachment 6 – FY2019 Deferred Maintenance Backlog for Update
- Attachment 7 – Fund Balance Projections Template
- Attachment 8 – Budget Calendar through December



State of Alaska - Office of Management and Budget
Fiscal Year 2019 to Fiscal Year 2020 Operating Comparison
By Agency and Fund Category (Non-Duplicated)

Department	FY2019 Management Plan + Enacted Supplementals				FY2020 Enacted				Difference				% Change All State Funds
	UGF	DGF	Other State Funds	All State Funds	UGF	DGF	Other State Funds	All State Funds	UGF	DGF	Other State Funds	All State Funds	
Administration	\$ 73,417.7	\$ 33,077.8	\$ 46,662.6	\$ 153,158.1	\$ 69,821.9	\$ 35,603.1	\$ 54,583.7	\$ 160,008.7	\$ (3,595.8)	\$ 2,525.3	\$ 7,921.1	\$ 6,850.6	4%
Commerce (w/o agencies)	\$ 9,227.1	\$ 43,980.3	\$ 16,308.3	\$ 69,515.7	\$ 7,675.2	\$ 44,511.6	\$ 16,061.2	\$ 68,248.0	\$ (1,551.9)	\$ 531.3	\$ (247.1)	\$ (1,267.7)	-2%
AEA	\$ 874.5	\$ 35,832.3	\$ 1,130.7	\$ 37,837.5	\$ 847.3	\$ 35,832.3	\$ 1,130.7	\$ 37,810.3	\$ (27.2)	\$ -	\$ -	\$ (27.2)	0%
AIDEA	\$ -	\$ -	\$ 8,677.3	\$ 8,677.3	\$ -	\$ -	\$ 8,660.6	\$ 8,660.6	\$ -	\$ -	\$ (16.7)	\$ (16.7)	0%
AGDC (duplicated funds)	\$ -	\$ -	\$ 10,386.0	\$ 10,386.0	\$ -	\$ -	\$ 9,685.6	\$ 9,685.6	\$ -	\$ -	\$ (700.4)	\$ (700.4)	-7%
Corrections	\$ 294,108.0	\$ 8,542.0	\$ 387.9	\$ 303,037.9	\$ 299,636.7	\$ 35,222.0	\$ 398.5	\$ 335,257.2	\$ 5,528.7	\$ 26,680.0	\$ 10.6	\$ 32,219.3	11%
Educ & Early Devel	\$1,321,856.3	\$ 25,315.9	\$ 42,220.6	\$1,389,392.8	\$1,295,179.7	\$ 24,860.8	\$ 41,240.9	\$1,361,281.4	\$ (26,676.6)	\$ (455.1)	\$ (979.7)	\$ (28,111.4)	-2%
Environ Conservation	\$ 15,391.8	\$ 24,919.9	\$ 12,001.0	\$ 52,312.7	\$ 15,397.2	\$ 25,144.5	\$ 8,774.2	\$ 49,315.9	\$ 5.4	\$ 224.6	\$ (3,226.8)	\$ (2,996.8)	-6%
Fish and Game	\$ 51,583.3	\$ 15,636.2	\$ 44,016.9	\$ 111,236.4	\$ 51,351.3	\$ 14,235.4	\$ 45,040.0	\$ 110,626.7	\$ (232.0)	\$ (1,400.8)	\$ 1,023.1	\$ (609.7)	-1%
Governor	\$ 27,781.7	\$ -	\$ -	\$ 27,781.7	\$ 23,941.1	\$ -	\$ -	\$ 23,941.1	\$ (3,840.6)	\$ -	\$ -	\$ (3,840.6)	-14%
Health & Social Svcs	\$1,129,533.1	\$ 87,213.1	\$ 28,007.6	\$1,284,753.8	\$ 971,101.7	\$ 84,495.4	\$ 33,543.2	\$1,089,140.3	\$ (198,431.4)	\$ (2,717.7)	\$ 5,535.6	\$ (195,613.5)	-15%
Labor & Workforce Dev	\$ 20,697.2	\$ 35,766.7	\$ 1,452.3	\$ 57,916.2	\$ 20,846.6	\$ 36,413.4	\$ 1,341.2	\$ 58,601.2	\$ 149.4	\$ 646.7	\$ (111.1)	\$ 685.0	1%
Law	\$1,589.8	\$ 2,882.2	\$ 3,537.1	\$ 58,009.1	\$ 50,746.2	\$ 4,510.4	\$ 3,534.2	\$ 58,790.8	\$ (843.6)	\$ 1,628.2	\$ (2.9)	\$ 781.7	1%
Military & Veterans Affairs	\$ 16,969.9	\$ 28.4	\$ 3,503.3	\$ 20,501.6	\$ 16,404.8	\$ 28.4	\$ 3,675.7	\$ 20,108.9	\$ (565.1)	\$ -	\$ 172.4	\$ (392.7)	-2%
Natural Resources	\$ 73,054.5	\$ 34,324.3	\$ 24,013.6	\$ 131,392.4	\$ 64,841.0	\$ 35,032.6	\$ 23,964.9	\$ 123,838.5	\$ (8,213.5)	\$ 708.3	\$ (48.7)	\$ (7,553.9)	-6%
Public Safety	\$ 165,320.4	\$ 8,451.0	\$ 271.0	\$ 174,042.4	\$ 169,223.0	\$ 8,843.2	\$ 203.9	\$ 178,270.1	\$ 3,902.6	\$ 392.2	\$ (67.1)	\$ 4,227.7	2%
Revenue (w/o agencies)	\$ 24,638.4	\$ 2,097.8	\$ 61,540.4	\$ 88,276.6	\$ 25,049.0	\$ 2,122.0	\$ 61,523.5	\$ 88,694.5	\$ 410.6	\$ 24.2	\$ (16.9)	\$ 417.9	0%
AHFC	\$ -	\$ -	\$ 35,438.7	\$ 35,438.7	\$ -	\$ -	\$ 35,382.8	\$ 35,382.8	\$ -	\$ -	\$ (55.9)	\$ (55.9)	0%
APFC	\$ -	\$ -	\$ 168,573.3	\$ 168,573.3	\$ -	\$ -	\$ 168,299.1	\$ 168,299.1	\$ -	\$ -	\$ (274.2)	\$ (274.2)	0%
AMHTA	\$ 500.8	\$ 500.0	\$ 4,135.3	\$ 5,136.1	\$ 465.5	\$ 500.0	\$ 4,095.3	\$ 5,060.8	\$ (35.3)	\$ -	\$ (40.0)	\$ (75.3)	-1%
Transportation & Pub Facilities	\$ 180,873.7	\$ 97,968.9	\$ 108,490.5	\$ 387,333.1	\$ 141,949.7	\$ 96,369.1	\$ 107,098.8	\$ 345,417.6	\$ (38,924.0)	\$ (1,599.8)	\$ (1,391.7)	\$ (41,915.5)	-11%
University of Alaska	\$ 327,033.5	\$ 331,131.2	\$ 1,677.6	\$ 659,842.3	\$ 302,033.5	\$ 331,824.1	\$ 1,681.5	\$ 635,539.1	\$ (25,000.0)	\$ 692.9	\$ 3.9	\$ (24,303.2)	-4%
Judiciary	\$ 105,444.9	\$ 518.0	\$ 804.4	\$ 106,767.3	\$ 107,213.7	\$ 1,716.5	\$ 804.4	\$ 109,734.6	\$ 1,768.8	\$ 1,198.5	\$ -	\$ 2,967.3	3%
Legislature	\$ 59,937.4	\$ 321.1	\$ -	\$ 60,258.5	\$ 64,129.2	\$ 327.7	\$ -	\$ 64,456.9	\$ 4,191.8	\$ 6.6	\$ -	\$ 4,198.4	7%
Branch-wide Appropriations	\$ (98.5)	\$ -	\$ -	\$ (98.5)	\$ -	\$ -	\$ -	\$ -	\$ 98.5	\$ -	\$ -	\$ 98.5	N/A
Total Agency Operations	\$3,989,735.5	\$ 788,507.1	\$ 612,850.4	\$5,391,093.0	\$3,697,854.3	\$ 817,592.5	\$ 621,038.3	\$5,136,485.1	\$ (291,881.2)	\$ 29,085.4	\$ 8,187.9	\$ (254,607.9)	-5%
Debt Service	\$ 199,995.4	\$ 39,814.5	\$ 47,197.9	\$ 287,007.8	\$ 122,753.3	\$ 16,545.8	\$ 40,215.3	\$ 179,514.4	\$ (77,242.1)	\$ (23,268.7)	\$ (6,982.6)	\$ (107,493.4)	-37%
State Retirement Payments	\$ 271,166.6	\$ -	\$ -	\$ 271,166.6	\$ 307,936.1	\$ -	\$ -	\$ 307,936.1	\$ 36,769.5	\$ -	\$ -	\$ 36,769.5	14%
Special Appropriations	\$ 46,500.0	\$ 32,346.3	\$ 17,200.0	\$ 96,046.3	\$ -	\$ 33,900.0	\$ 34,186.6	\$ 68,086.6	\$ (46,500.0)	\$ 1,553.7	\$ 16,986.6	\$ (27,959.7)	-29%
Fund Capitalization	\$ 165,997.0	\$ 32,093.3	\$ 6,407.1	\$ 204,497.4	\$ 21,724.5	\$ 12,651.9	\$ 6,415.9	\$ 40,792.3	\$ (144,272.5)	\$ (19,441.4)	\$ 8.8	\$ (163,705.1)	-80%
Statewide Operations	\$ 683,659.0	\$ 104,254.1	\$ 70,805.0	\$ 858,718.1	\$ 452,413.9	\$ 63,097.7	\$ 80,817.8	\$ 596,329.4	\$ (231,245.1)	\$ (41,156.4)	\$ 10,012.8	\$ (262,388.7)	-31%
Fund Transfers	\$ 31,210.0	\$ 27,432.5	\$ -	\$ 58,642.5	\$ 42,771.6	\$ 2,932.5	\$ 244.1	\$ 45,948.2	\$ 11,561.6	\$ (24,500.0)	\$ 244.1	\$ (12,694.3)	-22%
Total Statewide with Transfers	\$ 714,869.0	\$ 131,686.6	\$ 70,805.0	\$ 917,360.6	\$ 495,185.5	\$ 66,030.2	\$ 81,061.9	\$ 642,277.6	\$ (219,683.5)	\$ (65,656.4)	\$ 10,256.9	\$ (275,083.0)	-30%
Total Budget	\$4,704,604.5	\$ 920,193.7	\$ 683,655.4	\$6,308,453.6	\$4,193,039.8	\$ 883,622.7	\$ 702,100.2	\$5,778,762.7	\$ (511,564.7)	\$ (36,571.0)	\$ 18,444.8	\$ (529,690.9)	-8%

Released August 19, 2019

Budget Preparation Calendar

July

July 1

- Fiscal year begins

July 16

- Authorized scenario due to OMB

Mid

- 4th quarter appropriation status review by departments and OMB (AS 37.07.080(f))

July 31

- Management Plan change records and personal services modules due to OMB

August

Mid

- OMB issues memo to departments listing discussion topics for annual budget meetings; in preparation for the annual budget meetings agencies should:
 - Complete a program review to develop budget proposals
 - Review balances of capital projects
 - Update Deferred Maintenance backlogs
 - Update fund balance projections
 - Review progress on statewide initiatives and Governor's directives

August 23

- Prior fiscal year revised program (RP) transactions due to OMB

Late

- Conference Committee and Summary of Appropriations books issued by Legislative Finance

August 30

- Top priority Deferred Maintenance projects and prior year DM spend updates due to OMB

September

Early

- Submit annual budget meeting materials to OMB one week prior to your scheduled meeting date
 - A briefing paper for each budget proposal
 - Draft change records for each proposal in ABS
 - Preliminary agency program prioritization
 - Statewide initiatives and Governor's directives update
 - Capital appropriations spending update
 - A Deferred Maintenance backlog update
 - Fund balance projections
- OMB sends prior year accounting system reports to departments for Final Authorized and Actuals scenarios
- OMB issues fee report instructions
- Final Authorized and Actuals scenarios made available statewide

September 9

- Any necessary adjustments needed for Authorized scenario because of repeals, reappropriations or final actual carryforward amounts due to OMB

September 13

- OMB sends final Deferred Maintenance distribution to agencies

September 15

- Mental Health Trust Authority budget and implementation plan due to the Governor, LB&A, and departments (AS 47.30.046)
- Final AO266 regulation review results due to the Governor and OMB

Mid to Late

- OMB conducts annual budget meetings with departments
- Next fiscal year chargeback rates due to OMB and Administrative Services Directors
- Departments and OMB refine estimates of future fiscal year major budget changes (formula, debt, annualized fiscal notes, Medicaid, etc.)

September 18

- Prior year Final Authorized and Actuals scenarios with change records due to OMB (expenditure and revenue detail records for Actuals may be completed but should **not** be submitted to OMB)

Late

- OMB posts approved next fiscal year chargeback rates online
- Governor scenario is made available statewide with next fiscal year personal services rates

October

October 1

- Fee report due to OMB (AS 37.10.050(c))

Early

- OMB provides operating and capital ABS extracts to the Department of Revenue for the fall forecast
- OMB meets with the Governor and staff to discuss revenue budget proposals

Mid to Late

- OMB meets with the Governor and staff to discuss other agency budget proposals
- AHFC provides estimated dividend for upcoming budget year
- 1st quarter appropriation status review by departments and OMB (AS 37.07.080(f))

Late

- Legislative intent responses from departments due to OMB
- ASLC (AS 14.42.295) declares dividend for upcoming budget year

October 31

- Governor operating scenario with change records and personal services modules in final form, all expenditure and revenue detail, and new statewide policy distributions due to OMB
- Capital budget scenario with capital projects in final form due to OMB
- Department-level narrative due to OMB
- Program prioritization with outcomes data due to OMB

November

November 5

- Student counts from school districts due to the Department of Education and Early Development (AS 14.17.500)

Early

- University of Alaska Board of Regents approves budget

Mid

- OMB issues fiscal note instructions

November 15

- State Officers Compensation Commission preliminary findings and recommendations due (AS 39.23.540(c))
- Legislative intent responses due to Legislative Finance

November 17

- Organizational charts and non-departmental narrative including performance due to OMB

November 30

- OMB receives final student count from the Department of Education and Early Development

December**Early**

- AIDEA (AS 44.88.088) declares dividend for upcoming budget year
- OMB tests ABS numbers by running the three budget bills
- OMB and departments review numbers and language sections of operating, capital and mental health bills
- Department of Revenue releases Fall Revenue Sources Book
- Capital Appropriation Status Report (CASR) year-end accounting system data available to departments
- OMB distributes reports identifying potential ratifications

December 15

- Governor's budget bills, revenue bill(s) as applicable, fiscal summary, debt summary, department reports, executive summary of the 10-year plan, and performance measures posted on the OMB website (AS 37.07.020)
- OMB transmits budget bills and data files to Legislative Finance (AS 37.07.020)
- Fee report due to LB&A (AS 37.10.050(c))

Mid to Late

- Lease-purchase agreement report due to OMB
- Budget Books delivered to OMB (after OMB budget analyst approval)

Late

- OMB delivers Budget Books to Legislative Finance